U S WEST, Inc.
Suite 700
1020 Nineteenth Street, NW
Washington, DC 20036
202 429-3106
FAX 202 296-5157

Cyndie Eby
Executive Director-
Federal Regulatory

U S WEST

EX PARTE

March 29, 1996

William F. Caton, Acting Secretary
Federal Communications Commission
1919 M Street, NW, Room 222, SC-1770
Washington, D.C. 20554

RE: CC Docket No. 95-185

Dear Mr. Caton:

Today, U S WEST Communications, Inc. (U S WEST) representatives met with James Coltharp, Chief Economist-Wireless Telecommunications Bureau and Joseph Farrell, Chief Economist- Office of Plans and Policy to discuss matters at issue in the above-referenced docket. In particular, the discussion addressed the following points: 1) bill and keep is not economically rational; 2) bill and keep would reduce intrastate revenue; 3) many CMRS providers are large competitors negotiating from positions of economic strength; 4) guidelines for effective LEC-CMRS interconnection; and 5) cellular telephone calling patterns. Details of the presentation are attached.

U S WEST was represented by Professor Robert G. Harris, Law & Economics Consulting Group, Inc., Ken Denman, Vice President-Wireless Markets Group, and Cyndie Eby, Executive Director, Federal Regulatory.

In accordance with Section 1.1206 (a)(2) of the Commission's rules, the original and one copy of this letter are being filed with your office. Acknowledgment and date of receipt are requested. A duplicate of this letter is included for this purpose.

Sincerely,

Cyndie Eby

Attachments
cc: Mr. James Coltharp
Mr. Joseph Farrell

CMRS-LEC Interconnection Pricing

Ex Parte Presentation to the FCC
Professor Robert G. Harris
on behalf of U S WEST Communications, Inc.

CC Docket No. 95-185
March 29, 1996

Presentation Overview

- Bill and Keep harms public interest objectives
- Many CMRS providers are large competitors negotiating from positions of economic strength
- Substantial differences exist between CMRS providers and LECs
- Guidelines for effective LEC-CMRS Interconnection

Bill and Keep is Not Economically Rational

- The cost of tandem switching and transport is neither zero nor trivial
- A price of zero leads to a "tragedy of the commons" and/or regulatory arbitrage:
  - Examples of traffic congestion on tandem switches
  - IXCs will have an incentive to terminate interLATA traffic through CMRS switches to avoid access charges

Bill and Keep Would Reduce Intrastate Revenue

- A federal bill and keep mandate would unfairly reduce LEC state revenues
- US West received $70 million in intrastate revenue from CMRS interconnection in 1995
- According to CTIA, LECs received $800 million in intrastate revenue from CMRS interconnection in 1995

Bill and Keep Would Be a Regressive Tax

- CMRS use is positively correlated with income
- Pricing interconnection below cost is equivalent to a regressive tax paid by landline rate payers to CMRS providers and subscribers
- Landline state rate payers (essential service) should not be required to subsidize CMRS providers and subscribers (premium service)

Bill and Keep Would be a Windfall for PCS A&B Block Winners

- PCS license bids reflected the expected net present value of licenses, including interconnection costs
- Bill and keep increases the expected value of licenses by reducing costs, creating a windfall
- Windfall profits are at the US Treasury's expense
- "Interim" rules last longer than intended: the longer bill and keep lasts, the larger the windfall

Bill and Keep is Not Used in Other Industries

- Regulated Industries:
  - Railroads
  - Banking (SWIFT)
- Non-Regulated Industries

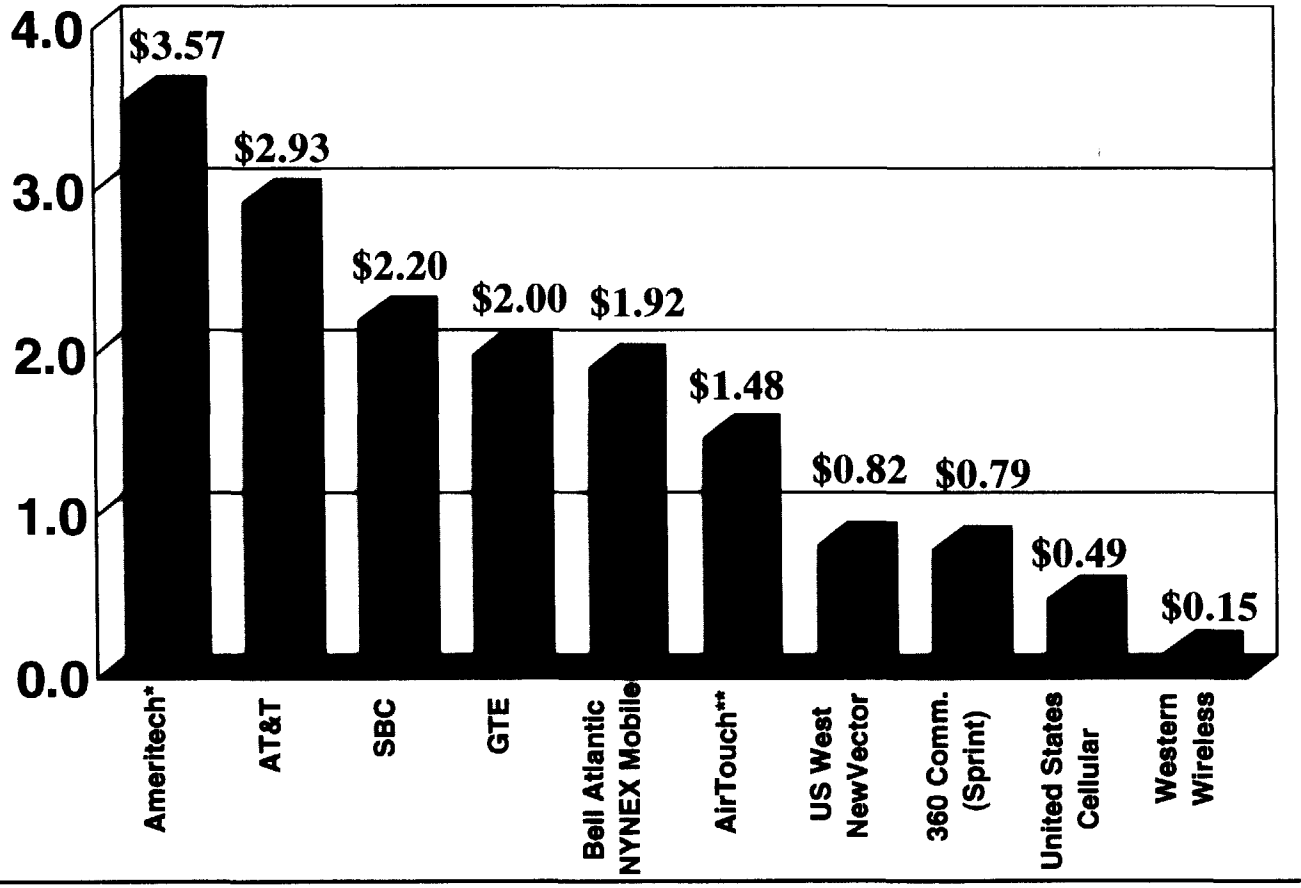
CMRS Providers Continue to Grow Dramatically

- 12/94 - 19.4 million subscribers
- 03/96 - 36.4 million subscribers and growing
- Anticipate a continuing 40% growth rate
- 1 new subscriber every 3 seconds
- 1995 revenues $19 billion; up 34% from $14.2 billion in 1994

Source: CTIA, Press Announcement, March 25, 1996

Large CMRS Providers Are Strong Negotiators

1995 Wireless Revenues
($Billions)



Notes:

*Includes Directory and other revenues.

**Domestic revenues only.

Source: Company Reports.

Factors Preventing CMRS Providers from Competing Directly with LECs

- 1FR is held below cost in most US WEST states
- CMRS usage is priced on a per minute basis
- CMRS transmission quality is not as high as LECs

Key Differences Between LECs and CMRS Providers

- LECs have carrier of last resort and universal service obligations
- Many LECs are required to price 1FR below cost at geographically averaged rates w/o usage charges
- LEC retail rates <u>are</u> regulated

- CMRS providers only serve profitable customers
- CMRS providers receive approximately 40 cents per minute for <u>incoming and outgoing</u> local usage
- CMRS retail rates <u>are not</u> regulated

Guidelines for LEC-CMRS Interconnection

- Allow "good faith" privately negotiated agreements
- Set broad guidelines to prevent anticompetitive behavior
- Allow the flexibility to accommodate different LEC pricing agreements
- Only prohibit anticompetitive agreements

Costs and Pricing for LEC-CMRS Interconnection

- Interconnection prices should be based on the following cost categories:
  - incremental costs (TSLRIC)
  - joint and common costs

LEC-CMRS Interconnection Cost Estimates

Company	Cost Estimate	Network Elements	Cost Type
Vanguard	0.57¢ (peak)	Unspecified elements	Incremental from engineering study
USTA/SPR	1.3¢ (avg.)	Terminating end office switching (**Type I**)	Incremental from econometric study
Cox (Brock), cited by FCC	0.2¢ (avg.)/ 2.1¢ (peak)	Originating and terminating end office switching; interoffice transport (**Type I**)	Incremental from engineering study
Pac Tel	0.5-1.0¢ (avg.)/ 5¢ (peak)	Tandem and terminating end office switching; common transport (**Type 2B**)	Incremental

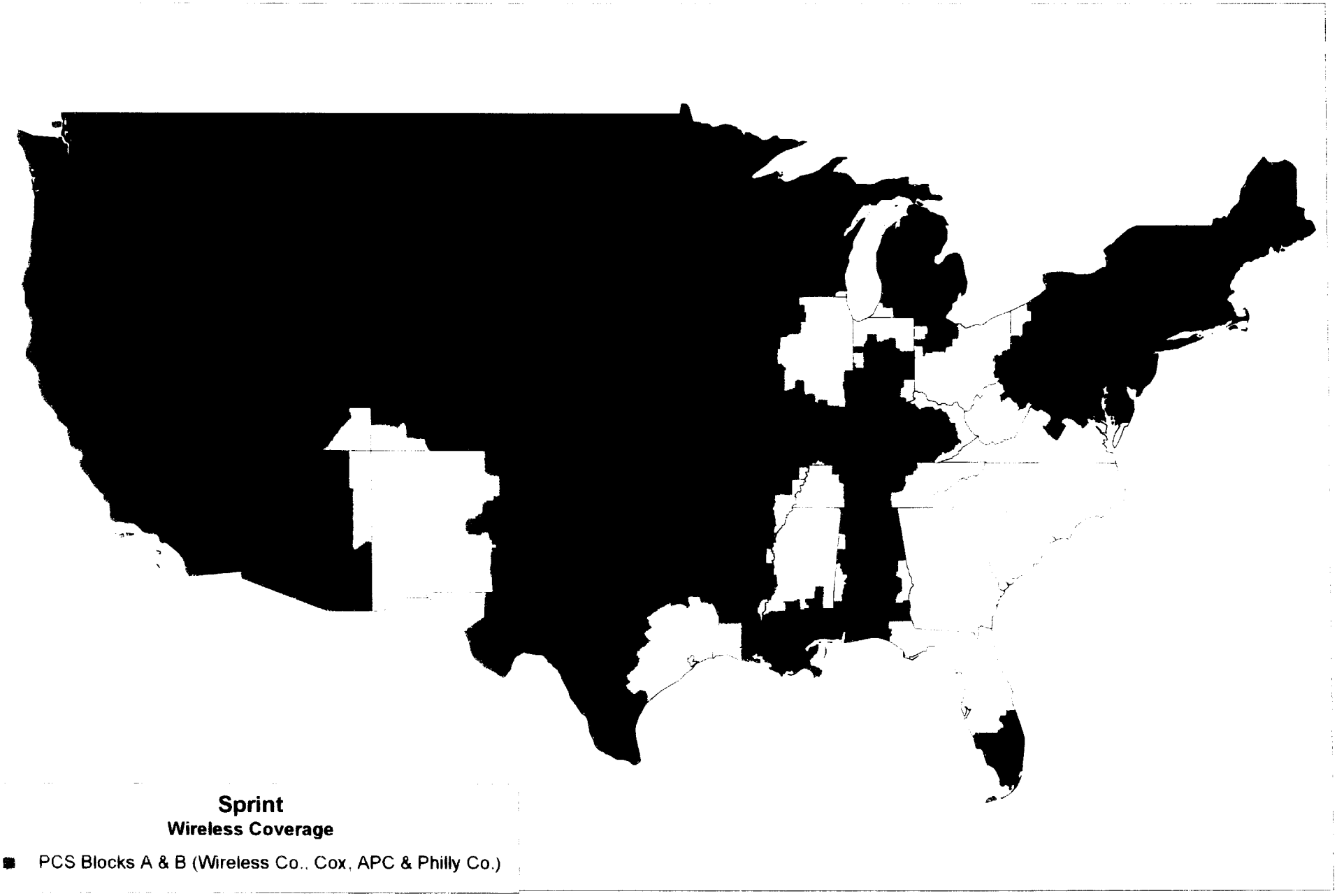
Source: Company filings in this proceeding.

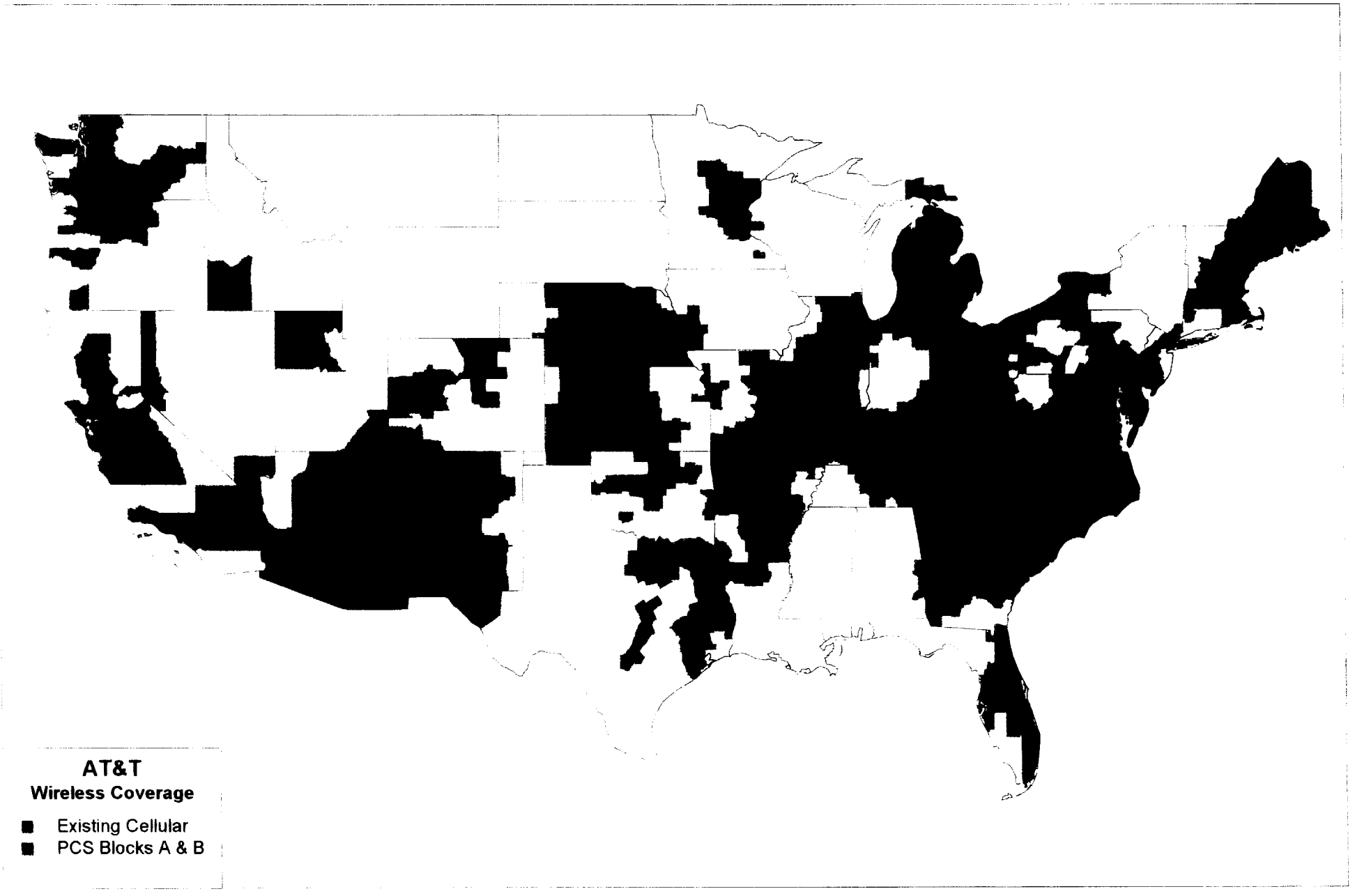
Flawed "Interim" Policies Should be Avoided

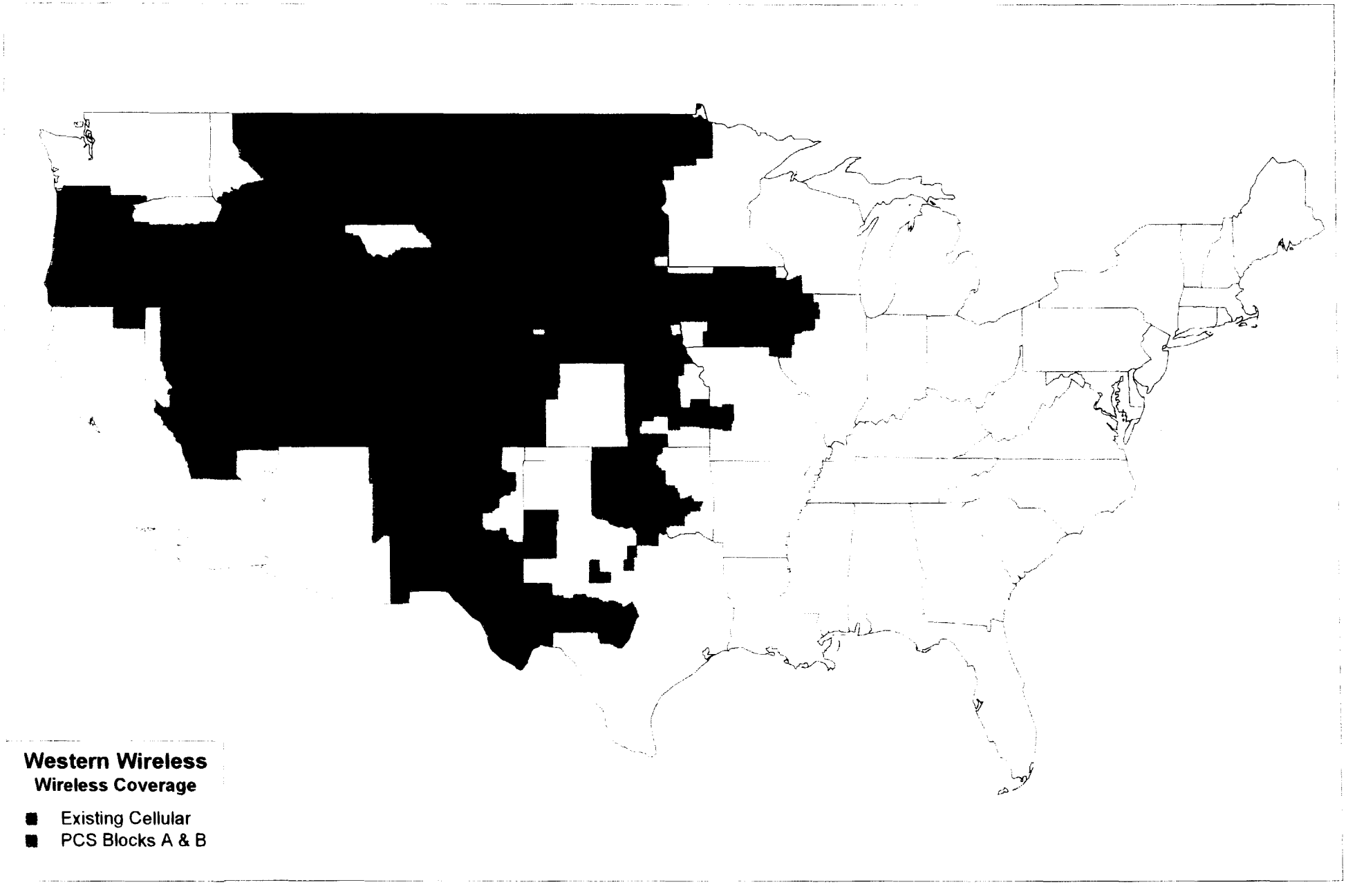
- Flawed interim policies:
  - create uncertainty in the marketplace
  - distort competition
  - create constituencies with a vested interest in their perpetuation
- Policies such as the ESP/ISP exemption from access charges lasted longer than intended

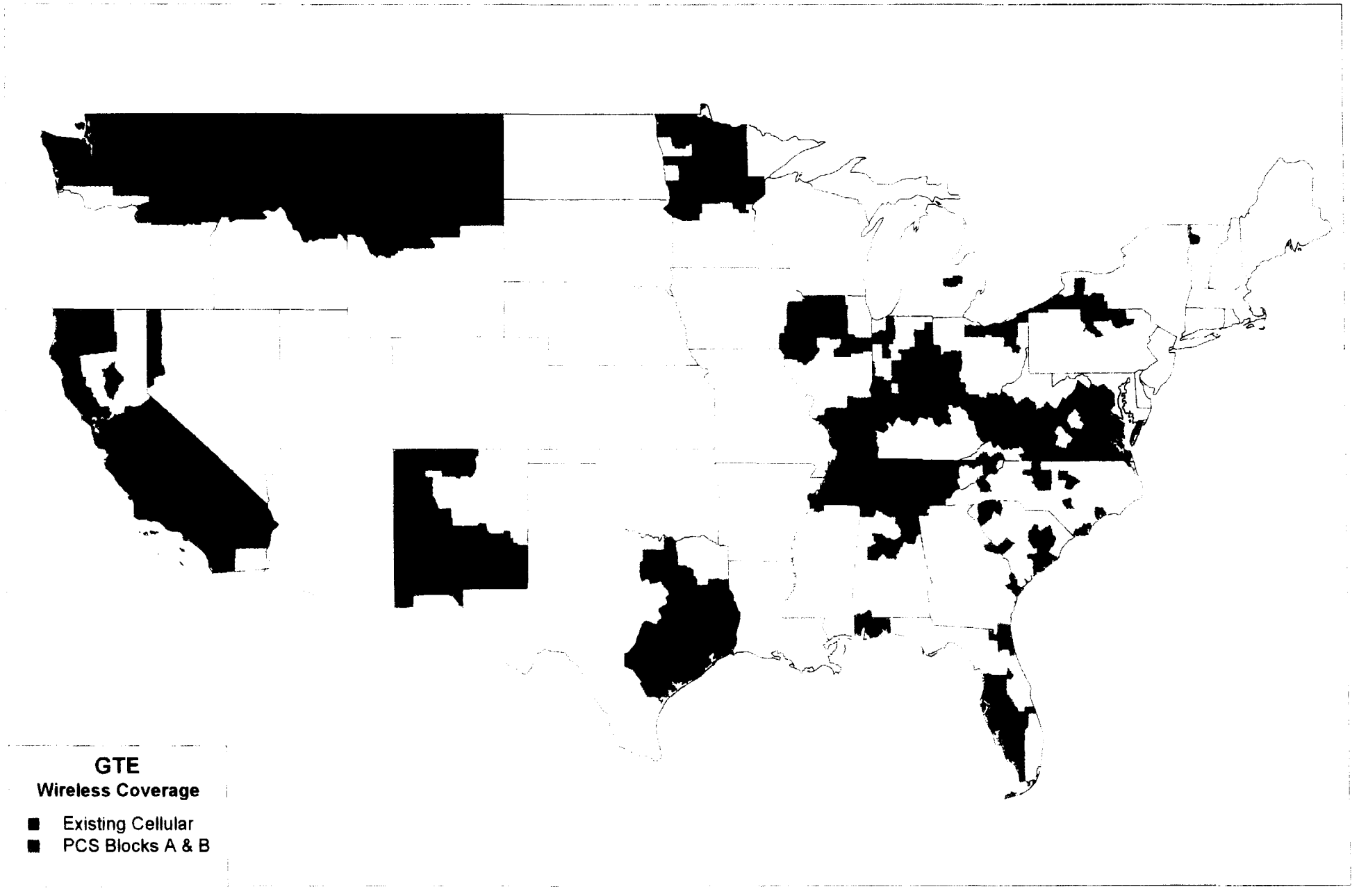
Initiate Interconnection and Access Proceedings

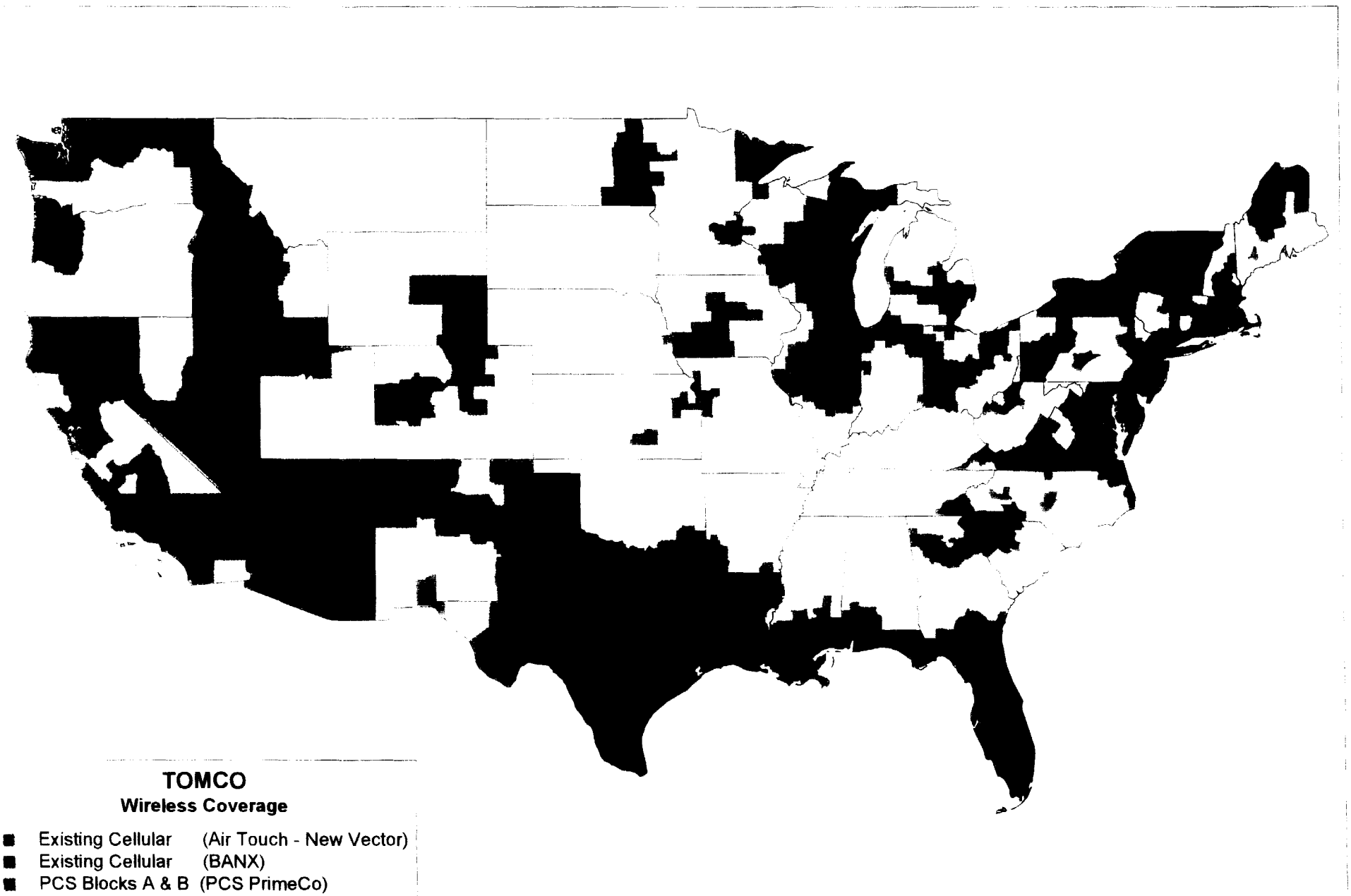
- Rebalance local rates
- Regulate functionally equivalent services under the same regime regardless of service user
- Use similar pricing structures for similar services to reduce regulatory arbitrage opportunities
- Allow existing agreements and negotiations to continue during the interim

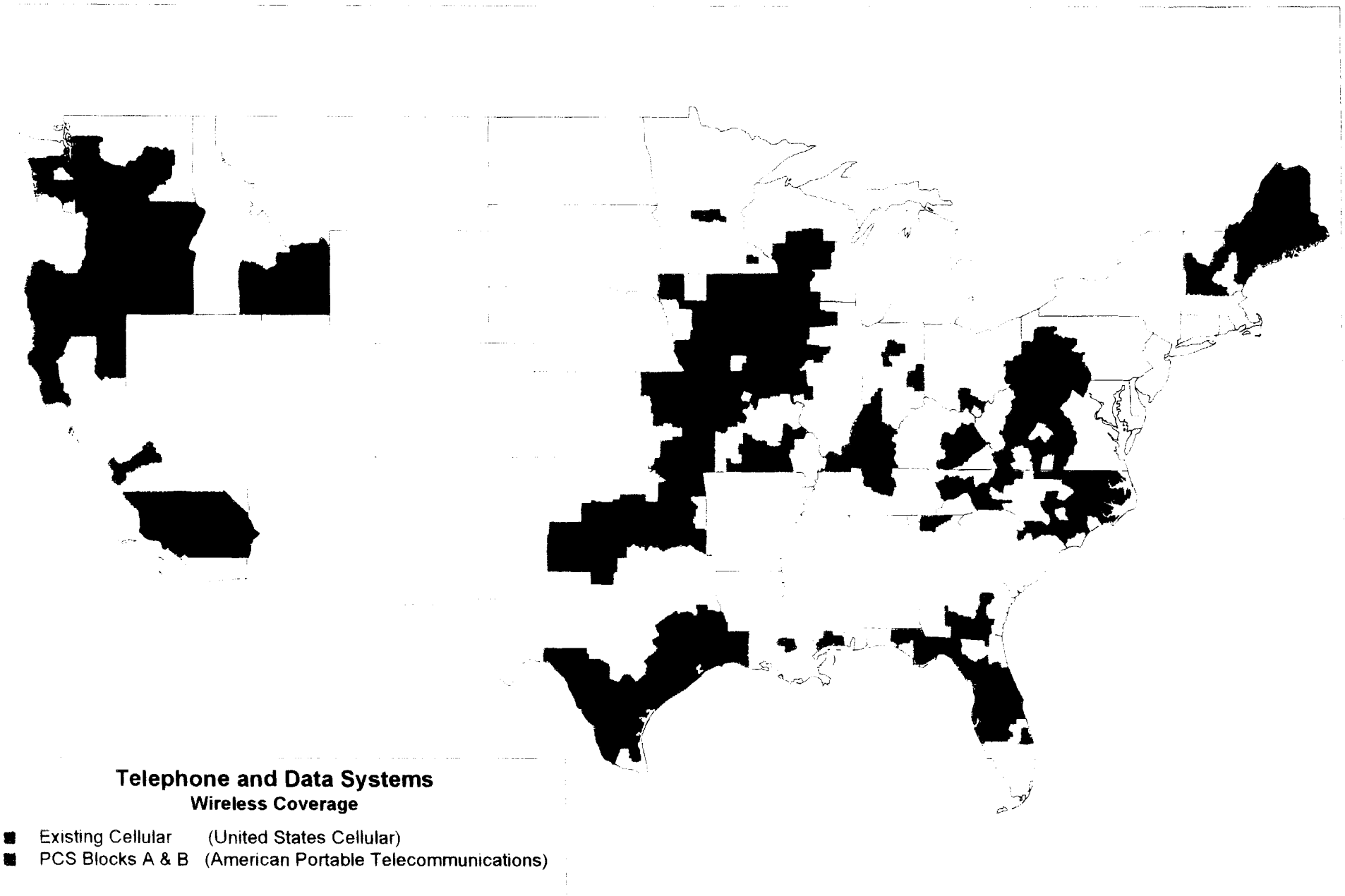

Sprint
Wireless Coverage
PCS Blocks A & B (Wireless Co., Cox, APC & Philly Co.)


AT&T
Wireless Coverage
Existing Cellular
PCS Blocks A & B


Western Wireless
Wireless Coverage
Existing Cellular
PCS Blocks A & B


GTE
Wireless Coverage
Existing Cellular
PCS Blocks A & B


TOMCO
Wireless Coverage
Existing Cellular (Air Touch - New Vector)
Existing Cellular (BANX)
PCS Blocks A & B (PCS PrimeCo)



U S WEST Advanced Technologies
Technology Intelligence

Cellular Telephone Calling Patterns for Residential Customers

Prepared by:
PNR & Associates

March 1996

Cellular Telephone Calling Patterns for Residential Customers

INTRODUCTION AND SUMMARY

In January, the Federal Communications Commission initiated a rulemaking proceeding in which it proposed to replace negotiated network interconnection agreements between commercial mobile radio service (CMRS) providers and local exchange carriers (LECs) with a mandatory "bill and keep" pricing policy. Under the Commission's proposal both the LEC and the CMRS provider would terminate calls on their respective networks at no charge to the originating carrier.

The Commission's proposal is intended to encourage the development of CMRS as a competitive alternative to local wireline telephone networks. It would accomplish this, presumably, by reducing the cost of providing wireless relative to wireline services. The "bill and keep" proposal is predicated on one of two conditions being satisfied: 1) traffic between wireless and wireline carriers is balanced, in which case there would be no reason to bill for terminating one another's calls; or 2) the cost of terminating cellular telephone calls on LEC networks is negligible because most cellular calling occurs during the off-peak hours of the wireline network. If this were true, carriers might elect to forego the expense associated with charging for network interconnections even if traffic is not balanced.

This study addresses each of these assumptions using per-call information derived from actual monthly billing records of 645 residential cellular telephone customers and a database of wireline calling statistics covering 22 million local and toll calls made at several LEC central office locations. Among other things, these data show that:

- *Cellular telephone traffic that terminates on cellular and LEC networks is not balanced.* Approximately 82 percent of all residential customers' cellular telephone calls are "outgoing" in that they originate on cellular systems and terminate on wireline telephone networks or another cellular system. The remaining 18 percent of all residential customers' cellular calls are "incoming" in that they are received by the cellular customer in question. Approximately 98 percent of all "outgoing" cellular calls terminate on a local telephone network while the remaining 2 percent terminate on a cellular system and, therefore, may not traverse the local wireline network.

- *Peak usage of wireline and cellular networks generally occurs during the same periods of the day.* Peak LEC demand among residential customers generally occurs during late morning (i.e., 10:00 am to 12:00 pm) and late afternoon (i.e., 3:00 pm to 5:00 pm) hours. These are also hours of high demand on cellular networks. Approximately 31.6 percent of all minutes of traffic carried on LEC networks occurs during these hours, compared with 31.9 percent of all outgoing cellular minutes placed by residential customers.